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## Harry Rigby Seminar Series

## Russia: what's next?

**Tuesday 23 June 2015**

*Richard Rigby (Chair)*

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# Harry Rigby Seminar Series
# Russia: what's next?

Tuesday 23 June 12:30pm – 2.00 pm

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**Abstract**

**ANUCES Roundtable Summary**

On 23 June 2015 the Australian National University's Centre for European Studies hosted a public roundtable to discuss current developments in Russia and consider the influences on future policy under Putin. The roundtable was the second in the Rigby Lecture Series for 2015. The series was established in March 2013 in honour of the late Professor T.H. 'Harry' Rigby. A graduate of the Universities of Melbourne and London, Professor Rigby worked at the ANU from 1958 until his retirement in 1996. By the 1970s he had won a reputation as a leading authority on the Soviet Union, and he was the main force driving the ANU's emergence as a centre of Soviet and Russian studies of global standing. He was among the very few who, in the early 1980s, foresaw fundamental change looming in the Soviet Union, and he remains Australia's foremost scholar of Russia.

The roundtable was chaired by Harry Rigby's son, Professor Richard Rigby, Executive Director of the ANU China Institute. Professor Peter Rutland (Wesleyan University) outlined the current economic situation in Russia. Associate Professor Stephen Fortescue explained the various players contributing to policy making in Russia at the moment, and Dr Robert Horvath argued that the past two years have seen a fundamental transformation of the Russian state. This summary paper consists of contributions from each panelist with some additional notes.

**OUTLOOK FOR THE RUSSIAN ECONOMY**

**Peter Rutland, Wesleyan University**

I would characterise the situation in Russia in mid-2015 as one of political stability, with little chance of regime change in the foreseeable future, combined with serious doubts about its long-run economic development prospects. This situation is reminiscent of the Brezhnev era (1964-82), when the Soviet political system was robust but economic performance was steadily declining. In 2013 leading Russian economists Igor Bunin and Vladimir Mau, warned that "the path from economic stability to economic catastrophe can be very short".

Regime change seemed to be a possibility in the winter of 2011-12, with the Bolotnaya street protests. But hopes of a middle-class revolution proved to be a mirage. Putin acted firmly to head off the opposition movement through repression combined with a new appeal to nationalist, "traditional" values. The Crimea crisis and Western sanctions strengthened Putin's legitimacy among the Russian public, with his approval rating shooting from 60-85 per cent.

Regime change is unlikely to come as a result of economic collapse. The government showed in 2008 and again in late 2014 that it has sufficient reserves to bail out corporate borrowers, stabilise the ruble and meet the country's international obligations. However, this was expensive. Reserves fell from $510 billion in early 2014 to $356 billion as of May 2014. There may be enough money to survive the next crisis or two, but if the oil price does not recover from its current level ($65) the government could start running out of money by the end of the decade.

Mention of the oil price leads to my next point: that Russia's economy remains dangerously dependent on oil and gas revenues. These account for 50 per cent of government revenue, 70 per cent of exports, and 20-25 per cent of GDP. The country was therefore badly hit by the 50 per cent drop in price of oil in 2014. That, together with the Western sanctions, will probably cause GDP to contract by 3.5 per cent in 2015.

Russia has many of the attributes of developing countries which fall prey to the "resource curse" – a rise in corruption, a bloated state sector, and a fall-off in investment in sectors other than energy. Very high rates of interest deter businesses from investing, and the high rate of capital flight ($150 billion in 2014) signals a lack of trust in investment opportunities at home.

Russia is failing in its efforts to diversify away from its minerals-dependent economy**.** In January 2012 Putin published an article in *Vedomosti* entitled "We Need a New Economy", meaning a revival of manufacturing and more innovation to promote productivity growth. However, despite the government pouring billions of dollars into various projects to promote such an industrial and scientific revival, there is little evidence that these programs are working. One problem is that much of the new state investment is going into military industries, with Putin declaring in August 2012 that "the defense sector has always served as the locomotive which pulls other sectors of the economy behind it".

The lack of diversification is part of a general slowdown in Russia's economic growth which dates back to 2010. While Russia was growing at 7 per cent per annum in the early 2000s, after the 2008 crash it only managed 3-4 per cent per annum growth before the 2014 crisis. The medium term growth prospects look grim due to full capacity utilisation, years of under-investment in key sectors (such as roads and railways), and a tight labour supply. Due to an ageing population the 70 million labour force is shrinking at one million per year, and the elderly dependency ratio will rise 18-36 per cent by 2050. Russia is also hampered by the fact that half its exports go to Europe, and the European economies have also been quite stagnant since 2008.

The above points are I think generally agreed by observers of Russia – and even by the Russian government itself. There are however some issues about which specialists disagree. For example, how bad is the corruption in Russia? Some argue that the corruption inhibits free competition and dooms the economy to inefficiency and stagnation unless something is done to tackle the problem. Others suggest that corruption is integral to the system and is not necessarily incompatible with economic growth.

Second, can the pivot to Asia breathe new life into Russia's economy? With the post-Crimea sanctions and ongoing efforts by the EU to decrease their dependence on Russian oil and gas imports, Russia sees little prospects for future growth through integration with Europe. Hence the pivot to Asia. But orienting Russia's economy to the East will take years of expensive investment in infrastructure, given the huge distances involved. And there is a risk that Russia will become dependent on its trade with China, which will drive a hard bargain over price and other conditions (such as demanding equity shares in projects inside Russia).

Third, there is a debate over whether the post-Crimea sanctions are really damaging the Russian economy. Birmingham University economist Richard Connolly argues that the sanctions are not really effective – they are easily evaded by trading through shell companies and third countries. However, it seems clear that the banking sanctions have made it more expensive for Russian borrowers to access capital, and the general political uncertainty around the Ukraine crisis has further spooked potential investors (both Russian and foreign). The oil sanctions have halted offshore Arctic exploration for the time being.

Even though Russia has weathered the storm of sanctions without an immediate crisis, inflation has surged to 16 per cent in part due to Putin's counter-sanctions on food imports, which led to food inflation of 25% per cent. Average incomes fell 5 per cent in the first quarter of 2015 and those in poverty rose from 11 per cent to 16 per cent in 2013-15. The bleak growth prospects, discussed above, mean that this decline in living standards will not be recouped in the near future. Eventually, this economic stagnation might undercut the "Crimea effect" in Putin's popularity.

## POLICY MAKING IN RUSSIA TODAY: WHO's AT THE TABLE

**Stephen Fortescue, University of New South Wales**

Events in Crimea/Ukraine and the December 14 financial crisis have put a lot of new emphasis on Russia's policy making process – how does it work, is it effective?
There are two basic views of how it works, which have a deep basis in political science and social science more broadly:

1) the personalist view: Putin runs everything, in consultation with a small circle of highly trusted cronies. This applies not just to foreign policy and security issues, but to the whole range of socio-economic policy making, as the *siloviki* present everything as a threat and thereby "securitise" everything.

2) the institutionalised/bureaucratic view, which includes a big stress on strategic planning, including in security areas. Often in this view Putin is seen as at best an arbiter, and at worst someone who has little control over the policy process.

Of course both views can be true, depending on the issue. In fact it is very likely that both are true: some things are highly likely to be dealt with in a personalist way or something like it; some level of institutionalisation is unavoidable in a modern, complex society.

I have no idea, no doubt like the rest of us, as to how and by whom decisions regarding Crimea and Ukraine were made. I have no problem believing that the actual decisions were made by Putin in a small circle of cronies. I suspect it is not unusual for decisions of that sort to be made that way in many places. Who are in the circle? Some say it's no more than the head of the FSB and some of his deputies; others include a few trusted friends. Are there any institutions that might be involved? Some say that the Security Council is the centre of decision making in all "securitised" matters. I had a quick look at the listed formal meetings – it's not obvious that it met to decide things. There were no recorded meetings between 27 December 2013 and 24 January 2014. There were then meetings on 31 Jan, 14 Feb (to discuss Geneva-2 and the Sochi Olympics); 21 February 2014, but after the agreements were signed in Kiev. There was a meeting on 11 April 2014 to discuss gas deliveries to Ukraine, but Putin had already discussed that matter with various members of cabinet, including the economic bloc, on 9 April. In talking about institutions, it is worth noting that Russia has no equivalent to the Soviet Union's Politburo.

No lesser a question than who takes the actual decisions is what information relevant to the decision is received and from whom. In the personalist view Putin gets his information only from the small group with whom he discusses the decision, and they tell him what he

wants to hear. Anyone who makes a habit of telling him things he doesn't want to hear gets frozen out.

There is another view that he listens to a wide range of views. Venediktov of Ekho Moskvy has said that the members of the economic bloc explained to Putin the risk and consequences of sanctions; he listened, weighed things up, and made his decision (www.echo.msk.ru/blog/pressa_echo/1336972-echo/); Dvorkovich said in December 2013 that he – and other deputy PMs – had no trouble getting access to Putin (kommersant.ru/doc/2372431). Beyond that, there is an institutionalised process for feeding a wide range of information to him, not least the strategic planning process.

There is a huge tension in any modern system between, on the one hand, careful, institutionalised, "strategic" policy making – which is likely to be slow even ponderous, heavily negotiated in its outcomes, and even gridlocked if there aren't good contact breakers – and, on the other, trying to get things moving in a way that does not lead to dysfunctionality, arbitrariness and hare-brained schemes.

Circumstances themselves provide a circuit breaker of sorts in the case of "crises" (whether manufactured or genuine) – something has to be done. This can be seen in the case of Crimea, as well as the GFC and December 2014. One can argue about whether the overall approach or specific steps were wise, but the process was pretty efficient. Putin is clearly proud of his role in Crimea; he is also very proud of the way the GFC was handled. He presented it as a model for December 2014, and probably feels that December 2014 was indeed handled pretty well. I don't entirely disagree with him.

But it's in the less "crisis" but nevertheless critical issues – whether they be long-term strategic or routine – where problems arise. These things have to be dealt with in an institutionalised way, because they are complicated; they certainly can't all be dealt with in a personalised way, because one person can't handle everything.

Putin gets extremely frustrated with the ponderous nature of institutionalised policy making, and has formally and informally broken down the consultation and sign off procedures (*soglasovanie*) which are at its heart. But he gets equally frustrated at the

chaos that flows from the breakdown of *soglasovanie* (things come to be agreed at the meeting, on the run; there are arguments about what was decided at the previous meeting; participants agree to anything because they have no choice; and therefore they feel entitled to do everything they can later to change or subvert the decision), and at the constant appeals for him to resolve matters.

Presenting the personalist view, Minchenko says: "In the past Putin would delegate, would leave some things to look after themselves, or would wait until all the players had sorted things out between themselves. Now, it's different. He takes decisions after listening to those he trusts, and when someone loses his trust, he changes his decision and takes a new one suggested to him by the new trusted person. There might be a meeting in the evening where something is agreed, but by the middle of the next day it turns out that late at night Putin had another meeting or informal discussion at which everything was changed". Policy participants can't even find out who was at the latest meeting, because it's considered inappropriate to ask (newtimes.ru/articles/print/86540/).

Putin insists that he doesn't take decisions on everything, and he and his press secretary Peskov are constantly saying that particular matters are for the government to decide. But top officials openly and on the record say that those very matters have to be decided by Putin. At times in recorded meetings he is happy to resolve issues on the spot; at other times he complains about matters coming to the meeting without preliminary sign-off. To be blunt, the signals are very mixed.

The reality is that more often than not decisions take forever to be reached, they are likely to be heavily diluted by the time they are, they are rarely treated by participants as final, and agencies sabotage the implementation of decisions that have been made. I like the case of Yakunin, the head of Russian Railways (and considered a Putin crony) complaining bitterly about the Ministry of Finance finding endless bureaucratic reasons to prevent the handover of money from Social Welfare Fund for rail infrastructure (after a policy debate that lasted a year or so). For example, MinFin demands that there be completed design documentation before they will hand the money over. Says Yakunin: "Show me a single project that we have built with approved design documentation" (kommersant.ru/doc/2704744).

Russian policy making is not personalist in the sense that it's all Putin and a small circle of cronies. It has most of the features of a modern, complex, institutionalised policy process. But it is personalist in the sense that Putin is the only circuit breaker, and all too often not a very effective one (his diffidence is as big a problem as his activism). It is not sustainable to have a single leader as the only circuit breaker. He is clearly aware of the issue and tries others: ASI, Strategy 2020, various expert and economic councils, ONF, even phone-ins, elections and election promises, and so on. None of them have been particularly convincing.

Russia is modern enough and still has the flexibility and even vitality to get things done when it's urgent enough, and even to provide some degree of rational constraint on hare-brained schemes. It's not quite Brezhnev's stagnation. But there are elements of stagnation, as there are in any complex system, but Russia is not well equipped to handle them. It's not just Putin – it's the nature of modern life and the structures Russia has to deal with it. The situation is not bad enough to lead to imminent collapse, but the elements of stagnation, primarily the lack of circuit breakers, are ever more evident and must have some consequences eventually.

## THE CONSOLIDATION OF AUTHORITARIANISM IN RUSSIA 2012-2014

**Robert Horvath, La Trobe University**

Today I would like to address the consolidation of authoritarianism in Russia since the end of Medvedev's illusory liberalisation and Putin's return to the presidency in 2012. I would like to argue that the past two years have witnessed a fundamental transformation of the Russian state from a hybrid regime into a more conventional dictatorship.

This dictatorship has two distinguishing characteristics. On the one hand, it is much more repressive towards political opposition and towards civic and media structures linked to the opposition. On the other, it has mobilised social and political forces that are significantly more intolerant and illiberal than those that were previously employed in its counter-revolutionary projects.

The catalyst for this transformation was the "*Bolotnaya*" protest movement against the rigging of the Duma elections in December 2011. This movement shook the foundations of the Putin regime. Some commentators now treat the defeat of the protests as a foregone conclusion, but at the time the authorities had at least five reasons to fear a revolutionary upheaval. First, the regime's legitimacy was in question; the ruling party was widely perceived as incurably corrupt; and the protests threatened the very foundations of the regime, the rigged elections that gave it the semblance of a popular mandate. Second, there was a crisis of leadership: Putin's popularity had plummeted to the thirties, and he had clearly lost the trust of a substantial segment of the population; while the opposition had a charismatic leader, Aleksei Naval'nyi. Third, the regime was losing control of the streets. The protests had attracted massive crowds, ten times larger than the largest demonstrations that Putin had faced during his presidency, and there was a risk that they would reach that tipping point where a majority perceives change as inevitable. Fourth, there were signs of serious fractures in the elite. Figures like Kudrin and Shuvalov were clearly positioning themselves to be part of a post-Putin era. And fifth, the regime's counter-revolutionary defence mechanisms, pro-Kremlin youth movements like *Nashi*, had been shown to be incapable of doing anything except squandering the state's money.

The regime responded to this crisis with illusory concessions and then a series of radical measures. Some were legislative. Not without reason has the current Duma been described as a "printer gone mad", a place where deputies are locked in competition for drafting the most draconian legislation. Some were bureaucratic, such as the creation of the trolling factories that have distorted the Russian internet. And some were essentially covert operations, such as the secret filming of opposition leaders for propaganda broadcasts and the group of provocateurs who attacked police during the May 6 demonstration against Putin's return to the presidency. The result was a creation of a considerably more aggressive and intolerant kind of regime. This regime rests upon four pillars.

The first of these pillars is a significant escalation of the persecution of the opposition. During Putin's second term, the authorities had marginalised the opposition by media manipulation and administrative abuses. Effective opposition leaders, people like Nemtsov, Kasparov and Kasyanov, were placed on Stop Lists that prevented their appearance on

state television; and they were excluded from the sphere of systemic politics by the hijacking of political parties and by the creation of obstacles to registration.

Now criminal prosecution of mainstream opposition politicians and activists is part of the routine of Russian political life. The best known are the prosecutions of the *Bolotnaya* protesters and Naval'nyi, but there have been a mass of cases, both in the centre and the regions. The result is that today there are about 50 political prisoners in Russia. Many more have had their lives disrupted by many months of incarceration while cases against them were investigated. Other prominent activists, such as Gary Kasparov and Evgeniya Chirikova, have chosen exile.

The second pillar of the regime is the devastation of the civic infrastructure that sustains the democratic milieu: think-tanks, discussion forums, NGOs and the media. One of the first blows was the criminal investigation that drove Sergei Guriev, the rector of Moscow's prestigious New Economic School, into exile. His crime was undoubtedly his role as unofficial advisor to Naval'nyi.

This line of attack was facilitated by the "Foreign Agents Law". Drafted in characteristically vague terms to facilitate selective implementation, this law was initially used to attack NGOs critical of the state: election-monitoring organisations such as GOLOS; human rights organisations like Memorial's human rights centre, the Soldiers' Mothers, and *Obshchestvennyi Verdikt*; and anti-corruption organisations like Transparency International Russia. But the offensive has now expanded to think tanks and educational structures, such as Elena Nemirovskaya's Moscow School of Civic Enlightenment, Evgenii Yasin's Liberal Mission, and Memorial's Information-Education Centre. Even innocuous initiatives such as the "Public Commission to Preserve the Heritage of Academician Sakharov" and the Samara Centre for Gender Research have been tarred. Sixty-nine organisations, the cream of Russia's civil society, now feature on the Justice Ministry's blacklist of "foreign agents".[1] Some of them have already closed their doors; others have been forced to transform themselves into amorphous associations; all have been damaged by the law.

And things are only going to get worse. A new law on "undesirable organisations" enables

[1] http://unro.minjust.ru/NKOForeignAgent.aspx

the authorities to ban outright any organisation that is deemed a threat to the constitutional system and to impose prison sentences of up to 6 years on any Russian citizen who collaborates with such organisations.

The third pillar of the post-*Bolotnaya* regime is the punishment of those who transgress an increasingly controlled public arena. Before *Bolotnaya*, opposition protests like Strategy 31 had to compete with preventive demonstrations by pro-Kremlin youth organisations and with riot police. But participants rarely suffered life-changing consequences. This has all changed with the so-called "*Bolotnaya* case", which resulted in serious terms of incarceration – over three years – for 8 demonstrators. The impact of this case has been magnified by the adoption of new legislation, which increases the fines by 300 times for participating in an unauthorised protest.

The regime's controls on physical space are matched by its assault on the virtual spaces of the internet, the once uncensored discussion forum in which the networks of the *Bolotnaya* protest movement had coalesced. The so-called *Lugovoi* law, adopted in December 2013, made it possible to block the main hubs of opposition discussion, the town squares of the internet, by administrative fiat. In 2014 alone, 4500 internet sites were blocked as "extremist". Many of these sites were linked to radical Islam, but they include 4 of the most influential spaces for pro-democracy news and discussion, and many other lesser sites that have been classified by SOVA as examples of unjustified application of anti-extremism legislation.[2]

This is just part of a broader campaign to tame the internet which is, as Putin told us last year, a CIA plot. The Russian authorities have subjugated the social-networking site, *VKontakte*, driving its founder into exile; they've attacked the search engine Yandex and promoted a rival, Sputnik, that will generate more predictable, more onesided results; and they have turned trolling into one of the country's few growth industries.

At the same time, the space for systemic opposition has virtually disappeared. Three genuine opposition politicians were elected on the lists of "A Just Russia" in the 2011 Duma

[2] "Resursy v reestre saitov, zablokirovannye po zakonu Lugovo", last revised 16 April 2015, http://www.sova-center.ru/racism-xenophobia/docs/2014/10/d30228/

elections. Gennadii Gudkov was soon stripped of his Duma seat; Il'ya Ponomarev is in exile and is facing trumped up criminal charges; and Mikhail Gudkov is certain to lose his seat at the elections that may take place as early as September this year.

While the regime has been pulverising the democratic movement, it has showered favour on illiberal and anti-Western xenophobic elements. During Putin's second term in the Kremlin, the regime developed a policy of "managed nationalism", which involved the suppression of nationalists who had shown sympathy for Ukraine's "Orange Revolution" and the promotion of loyalist nationalists, even neo-nazis such as *Russkii Obraz*.

Since the *Bolotnaya* protests, this project has metastasised into a de facto alliance between the Kremlin and anti-Western radicals. The symbol of this alliance is Dmitrii Rogozin, a leading radical nationalist politician, who was appointed deputy prime minister at the height of the *Bolotnaya* protests. Rogozin serves as the Kremlin's interlocutor both with local nationalists and with the European ultra-right.

Another symbol of this realignment is the culture minister, Vladimir Medinskii, a pseudo-academic best known for his plagiarised thesis and his editorship of a series of propaganda books about the West's hatred of Russia.

The Kremlin's embrace of anti-Western extremism was formalised by the rally of pro-Putin forces at Poklonnaya Gora on 4 February 2012. The list of speakers was a who's who of anti-Western publicists. Boris Mezhuev, a conservative intellectual who is deputy editor of the pro-Kremlin newspaper *Izvestiya*, lamented at the time that the "loyalist field" was being surrendered to "anti-western radicals".[3]

The beneficiaries of this surrender included Nikolai Starikov, an autodidact who is a major contributor to the xenophobic, conspiratorial literature that today infests the shelves of most Russian bookshops. Starikov's two specialities are the celebration of Stalin and the demonisation of Britain as Russia's most dastardly enemy.

Earlier this year, Starikov launched the Kremlin's latest anti-revolutionary initiative, the

[3] Boris Mezhuev, 'Smotr stroia i pesni,' *Izvestiya*, 7 February 2012, p.9

"AntiMaidan" movement, with a march through central Moscow. I attended this event, and I can only say that it was a chilling experience.

Unlike the rallies of confused youth that characterised Putin's second term, this was dominated by a core of violent men: "Night Wolves" bikers; Afghan and Chechen war veterans; assorted Cossacks; a contingent of Kadyrovites; martial arts fighters; ultranationalists from the *Bitva za Donbass* movement; and paramilitaries from Novorossiya.

On almost every criterion, Russia has moved towards a more authoritarian order since Putin's return to the presidency. By reducing opportunities for normal political contest, by attacking the civic infrastructure that sustained public debate, and by promoting anti-Western radicals, the regime has made Russian politics more predictable. In particular, it has reduced the likelihood both of liberalisation and of a peaceful transition to a political order that respects the provisions of Russia's own constitution. It has also created a state that is less transparent, less responsive and less accountable than ever to its own people.

At the same time, the regime has set in motion an illiberal spiral. By employing anti-Western extremists as a weapon against liberalism, by giving them platforms to propagate their bizarre conspiracy theories, and by using them as proxies in its war against Ukraine, it is creating pressure for more authoritarian and anti-Western policies. There is every reason to believe that the worst is yet to come.

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